

Internal Revenue Service, Treasury

§ 1.668(b)-2

1955 and \$4,000 on the last day of 1954. The beneficiary had taxable income (after deductions) from other sources of \$5,000 for 1956, \$10,000 for 1955, and \$10,000 for 1954. The beneficiary's tax liability for 1956 is \$4,730 determined as follows:

Year 1956	
Tax on \$15,000 (taxable income including section 666 amounts)	\$4,730
Tax on \$5,000 (taxable income excluding section 666 amounts)	1,100
Tax attributable to section 666 amounts	3,630
Year 1955	
Tax on \$16,000 (taxable income including section 666 amounts)	\$5,200
Tax on \$10,000 (taxable income excluding section 666 amounts)	2,640
Tax attributable to section 666 amounts	2,560
Year 1954	
Tax on \$14,000 (taxable income including section 666 amounts)	\$4,260
Tax on \$10,000 (taxable income excluding section 666 amounts)	2,640
Tax attributable to section 666 amounts	1,620

§ 1.668(b)-1 Credit for taxes paid by the trust

(2) The trust is entitled to the credit for taxes paid by the trust as the tax of \$3,630 attributable to the section 666 amounts as computed at 1956 rates is less than the aggregate of the taxes of \$4,730 (\$2,560 plus \$1,620) which would have been payable by the trust if the amounts described under section 666(a) had been distributed in the year in which the tax liability was ascertained. The trust is not allowed to deduct the tax of \$3,630 as a credit against the tax of the beneficiaries to whom the amounts described in section 666(a) are distributed.

(b) The credit to which a beneficiary is entitled under section 668(b) is allowed for the taxable year in which the accumulation distribution (to which the credit relates) is required to be included in the gross income of the beneficiary.

Any excess over the total tax liability of the beneficiary is treated as an overpayment of tax by the beneficiary.

(c) The beneficiary is entitled to a portion of the credit described in paragraph (a) of this section in the ratio which the amount of the accumulation distribution to him bears to the accumulation distributions to all the beneficiaries.

§ 1.668(b)-2 Illustration of the provisions of subpart D.

The provisions of subpart D (section 665 and following), part I, subchapter J, chapter 1 of the Code, other than provisions relating to a foreign trust created by a U.S. person, may be illustrated by the following example:

Example. (a) *Facts.* (1) Under the terms of a trust instrument, one-half of the trust income is required to be distributed currently to beneficiary A. The trustee may in his discretion accumulate the balance of the income of the trust or he may make distributions to B out of income or corpus. The trust is to terminate upon the death of A and the corpus is to be distributed to B. Capital gains are allocable to corpus. All of the expenses of the trust are charges against income. The trust instrument provides for a reserve for depreciation, so that depreciation is deductible in computing distributable net income. The trust and both beneficiaries report on the calendar year basis. The trust had long-term capital gains of \$20,000 for 1954, and \$10,000 for 1955, which were allocated to corpus. The distributable net income of the trust as determined under section 643(a) for 1954, 1955, 1956, and 1957 is deemed to consist of the following items of income:

	Dividends	Rents	Interest (taxable)	Interest (exempt)	Total
1954	\$15,000	\$20,000	\$10,000	\$5,000	\$50,000
1955	10,000	15,000	10,000	5,000	40,000
1956	10,000	20,000	15,000	5,000	50,000
1957	10,000	15,000	15,000	5,000	45,000

(2) One-half (\$7,500) of the dividends for 1954 was received by the trust on or before July 31, 1954, and the balance was received after that date.

(3) The following distributions were made by the trustee to A and B during the taxable years 1954 through 1957:

	A	B
1954	\$25,000	None
1955	20,000	None
1956	25,000	\$45,000
1957	22,500	29,550